

Subcommittee on Africa, Global Human Rights and International Operations

Chairman Christopher H. Smith

*Reviewing the Progress and Charting the Path Ahead:
The Microenterprise Results and Accountability Act of 2004*

Thursday, July 27, 2006

Good afternoon. I would like to welcome fellow Members, our witnesses, and other visitors to this hearing of the Subcommittee on Africa, Global Human Rights and International Operations. Today we will review a topic of great interest to me and to other Members of this Subcommittee for many years – microfinance.

While the term “foreign aid” can sometimes assume a rather negative connotation, the tools of microfinance and microenterprise provide a shining counterpoint to other programs that just don’t perform.

It was not uncommon in the past to see foreign aid delivered in a top-down manner to corrupt governments and organizations, where it could never realistically reach its intended recipients. Such programs never delivered the benefits they promised.

Microenterprise, on the other hand, takes advantage of a very different method. It uses a “trickle-up” approach that focuses on helping the most impoverished people of the world build themselves up, little by little, into self-sufficiency by providing them with access to financial services like small loans and savings accounts.

The sum of \$58 does not sound like a great deal to most of us in the developed world, but this is precisely the amount that helped change forever the life of Janet Korutaro, a widow from Nsike Village, Uganda.

Opportunity International, represented today at our hearing by its Senior Vice President, Susy Cheston, provided Janet with a loan in this amount so that she could expand the small grocery store that she runs in her house. This loan and two subsequent loans (\$115 and \$171) have allowed Janet to significantly expand her business, adding sugar, salt, eggs, and a refrigerator to hold juice, soda, and fruits, along with other improvements.

Janet’s daily net profit is just \$1.15, but this goes far in Uganda. These three small loans have helped take a widow in Africa from barely surviving and not daring to dream, to believing that all of her dreams might actually come true. Today, Janet anticipates being able to educate all of the children in her care, buy land, and build a little house.

Similar microloans have benefited over 5.8 million other clients of USAID-assisted micro programs in Fiscal Year 2005. The result is clear – microenterprise has the power to dramatically change lives for the better.

Success stories like Janet's are what microfinance and the Microenterprise Results and Accountability Act of 2004, PL 108-484, are all about. When I authored that legislation, we worked very hard in the House and the Senate with both the Administration and with non-governmental organizations to encourage the best possible microfinance programs, allowing us to reach the greatest possible number of people with services that truly have an impact on their lives.

The Act directs USAID to report to Congress on the status of the Agency's microenterprise programs each year at the end of June, and I am pleased to have read and reviewed the first such report, which covers USAID's activities through FY 2005. It is a comprehensive, thorough and informative report that will benefit not just the United States Congress, but the whole industry. While I'm sure that Members will have several questions today concerning the content of the report, I want to congratulate and thank USAID for such a quality product.

The Microenterprise Results and Accountability Act of 2004 also includes a number of other provisions that we believe will improve the quality of microfinance initiatives around the globe.

Among these are provisions that mandate the development of more reliable poverty assessment tools and of systems to measure the effectiveness of for-profit contractors and not-for-profit partners. In addition, we included directives on USAID central funding and on microenterprise programs for people afflicted with HIV/AIDS and for victims of human trafficking.

The final question that we must examine is this: Are these programs focused enough on directly benefiting the poor and other groups who would benefit the most from the tools of microfinance? Our witnesses today, who represent the Administration and the non-profit, consultant, and academic communities, will help to provide us with answers to this vital question.

I will conclude with a story. When I went to Uganda just a few months ago, I visited Mbuya Reach Out, a faith-based organization under the auspices of Our Lady of Africa Church in Mbuya, Kampala. This center, like many others around the world, is using microcredit to transform lives, serving over 1,800 HIV-positive clients and their families.

Income generation and self reliance are encouraged at Mbuya through "Bread for Life," a microfinance program that has provided more than 1,000 small loans to clients for small business investment, and skills training through "Roses of Mbuya," a tailoring workshop that targets unemployed HIV-infected women.

Is this exactly how all microcredit programs are focused? No, but it illustrates well the profound impact that American foreign aid can have on real human lives when the tools of microenterprise are put to work. I hope that we can continue the discussion of this topic constructively today, and I can firmly say that this Subcommittee will certainly remain involved in this very important area. Thank you.

I now yield to my good friend and colleague from New Jersey, the Ranking Member Mr. Payne.